Tell me more about how to declare a dividend

Declaring a dividend

It should be noted that this guidance only considers an example for ordinary shares.

Dividends are paid to shareholders of a limited company. The amount of dividends an ordinary shareholder can receive is based on the percentage of shares that they own. For example, if you own three quarters of the company's shares you'll receive 75% of each dividend.

How do you issue dividends?

In order for a company to pay dividends, it must have distributable reserves at the time of paying the dividend. This can include management accounting profits to date. Should you pay a dividend which will create a negative reserve, this is considered to be 'illegal' under the Companies Act. Do make sure you share your latest management accounts with me so I can confirm there are reserves available.

When issuing dividends, you need to record this through the statutory records of the company.

You will need to hold a 'board meeting' to agree on a dividend declaration and a record of the meetings minutes.

A dividend voucher needs to be prepared and issued to the shareholder/s. There is no standard template for this information, however should include the following:

- the date
- company name
- name and address of the relevant shareholder
- the total number of shares owned
- the total dividend payable
- the director's signature

Should you need help, please let me know.

What are the thresholds for dividends and the tax applied?

For the 2023/2024 tax year, there is a tax-free dividend allowance of £1,000. What that means is that you can take up to £1,000 in dividends in this period before you must pay any income tax on it. This is in addition to your personal tax-free allowance. Please be aware that the dividend allowance for the tax year 24/25 has been reduced to £500.

The personal allowance threshold is £12,570. Adding these two allowances together, you if your combined salary and dividend income exceeds £13,570, only then will you need to pay tax.

The amount that you pay will depend on your tax band:

- Basic-rate taxpayers will pay 8.75% (i.e. if you receive dividends over the personal allowance and up to a value of £37,700)
- Higher-rate taxpayers will pay 33.75% (i.e. if you receive dividends over £37,701 and less than £150,000)
- Additional-rate taxpayers will pay 39.35% (i.e. if you receive dividends over £150,000)

Are there any restrictions as to when you should and should not take dividends?

As director you can make decisions about when to pay dividends, as well as how much to pay. In fact, you can distribute dividends as often as you want to, assuming the profits are available in the company. If you wish to declare a dividend but not actually pay it that is allowed and your dividend will be treated as a creditor on the shareholder loan account until there is enough cash for the dividend to be paid.

Why is it recommended to pay yourself through a combination of salary and dividends?

As a company owner you can choose to pay yourself through PAYE (salary) or dividends, but it is often the combination of the two that will be the most beneficial to you. Taking a low salary and a higher dividend is usually the most tax effective combination if this is something you would like me to consider further please let me know.